Canadians: 2 Air Travel Plays to Watch in 2023

Description

It's been another sluggish year for air travel stocks. **Air Canada** (TSX:AC) and **Onex**'s (TSX:ONEX) WestJet Airlines are flying into a recession year while still recovering from the effects of the COVID-19 pandemic. Undoubtedly, Air Canada's slight international tilt has made a recovery more muted than expected. While air travel demand has shown signs of life through the year, there are questions as to how a central bank-mandated recession will impact demand for air travel.

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At this juncture, it seems like the air travel play isn't about to take off anytime soon. Air Canada stock is down around 15% from year to date, while many of its peers south of the border are experiencing choppiness as well, with a noisy economic environment and a consumer that's showing some pretty mixed signals.

Employment remains strong, but spending patterns have changed amid inflation and headwinds. Going into 2023, we could see more layoffs, and the employment picture could take an ugly turn. A recession may be very hard to avoid, without a bit of backtracking from the Federal Reserve and Bank of Canada.

Can the air travel recovery continue as a 2023 recession moves in to weigh on demand?

The pandemic likely wiped out a big chunk of business travel demand, as various employees moved to a remote or hybrid model. With leisure travel coming back online in a big way over the past two years, there's concern that it could take a backward step, as consumers feel more of a pinch in 2023. A stagflationary environment is never ideal for discretionary companies.

Fortunately, Air Canada and other well-run airlines seem well prepared for more turbulent times. The company has leaned out in the appropriate places to keep operating expenses in check. Further, teaming up with Emirates to share codes is a mutually beneficial move that could do a little bit to help the firm navigate another wave of headwinds.

For the third quarter, Air Canada saw strong results, with seat sales doubling during the summer.

Indeed, the air travel recovery seems to be in full swing. Looking ahead, falling fuel prices and greater fuel efficiency could help improve the underlying economics of the airlines, even if the recent air travel recovery runs its course.

Onex stock: A cheaper way to play air travel

Despite Air Canada's solid recent performance, its international exposure may be a sore spot for new investors looking for a swift recovery. At this juncture, WestJet-owner Onex seems like a safer and more diversified option for investors who are fine with a non-pure play on air travel.

Onex is an investment manager that's slated to see its founder and chief executive officer (CEO) be replaced. CEO Gerry Schwartz is leaving the role, with Bobby Le Blanc poised to take his place in the corner office. It's an interesting move that could come ahead of a sizeable rebound after years of sub-optimal performance.

Onex stock is down more than 35% year to date, with a price-to-book multiple of 0.5. There are challenges, but Onex stock seems more of a deep-value play going into 2023 than a firm that investors should hit the panic button over.

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